



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Service Regulation

*For the Two Fiscal Years Ended
June 30, 2008*

OCTOBER 2008

LEGISLATIVE AUDIT
DIVISION

08-26

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Department of Public Service Regulation for the two fiscal years ended June 30, 2008. This report contains one recommendation related to improving internal controls. The department's response to the recommendation is contained at the end of the report, beginning on page B-3.

We thank the commissioners and department staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED AND ADMINISTRATIVE OFFICIALS

Public Service Commission

	<u>Term Expires</u>
Greg Jergeson, Chair	January 2011
Doug Mood, Vice Chair	January 2009
Ken Toole	January 2011
Brad Molnar	January 2009
Bob Raney	January 2009

Administrative Officials

Wayne Budt, Administrator
Transportation and Centralized Services Division

Robin McHugh, Administrator, Legal Division

Kate Whitney, Administrator, Utility Division

For additional information concerning the Department of
Public Service Regulation programs, contact:

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Transportation and Centralized Services Division
Public Service Regulation
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Helena MT 59620-2601
Phone: (406) 444-6195
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REPORT SUMMARY

Department of Public Service Regulation

We performed a financial-compliance audit of the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2008. The prior audit report did not contain any recommendations. This report contains one recommendation related to improving internal controls of the department.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the financial information presented and the supporting data on the state’s accounting system.

The listing below serves as a means of summarizing the recommendation contained in the report, the department’s response, and a reference to supporting comments.

Recommendation #1

We recommend the department document procedures to monitor and test internal controls in accordance with state policy.....3

Department Response: Concur.....B-3

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2008. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws.
2. Obtain an understanding of the department's internal controls to the extent necessary to support an audit of the department's financial schedules and, if appropriate, make recommendations for improvement.
3. Determine if the department's financial schedules present fairly the results of operations for each of the two fiscal years ended June 30, 2008.

In accordance with section 5-13-307, MCA, the cost to implement the recommendation in this report is not significant.

Areas of concern, if any, regarding compliance with laws and regulations and state accounting policy deemed not to have a significant effect on the successful operations of the department are not specifically included in this report, but have been discussed with management.

Background

The Department of Public Service Regulation was created by the Executive Reorganization Act of 1971 and operates under the direction of the Public Service Commission (commission). The commission consists of five voting members who are elected on a district basis and serve a term of four years. After each general election, one of the commissioners is elected by the commission to serve as chairman until the next general election. The chairman exercises authority on behalf of a majority of the commissioners. The department's responsibility is to assure the public receives safe, adequate, and economical utility and transportation service at just and reasonable rates. The department is responsible for the regulation of certain public utilities, motor carriers, railroads, and pipelines within the state. It also performs certain safety inspections of those activities, except for motor carriers, which are inspected by the Highway Patrol Division of the Department of Justice.

The department has 39 full-time equivalent (FTE) positions that include five commissioners, a public relations position, and the following three divisions:

1. The Utility Division exercises general control over public utilities, including rate determination and safety standards (19 FTE).

2. The Transportation and Centralized Services Division exercises general supervisory control over the activities of motor carriers and railroads, and provides administrative support to the department (7 FTE).
3. The Legal Division advises the commission on matters requiring a legal interpretation or opinion and represents the commission in legal proceedings (7 FTE).

During the 1990's, the Legislature passed several bills which provided for a phase-in to customer choice of electricity and natural gas suppliers and restructuring of the electrical industry (Title 69, Chapter 8, Part 2, MCA) and natural gas industry (Title 69, Chapter 3, Part 14, MCA). Large customers of a restructured electric utility had the opportunity to choose an electric supplier by July 1, 1998, and all remaining electric customers were to choose a supplier by July 1, 2002, if administratively feasible. In December 2000, the commission, pursuant to its authority, extended the date for choice to July 1, 2004, finding that there is no viable competition. The 2003 Legislature extended the transition period to July 1, 2027. In addition, the Legislature designated the distribution services provider of a restructured utility to be the default supplier of electricity to nonchoice customers.

Chapter II – Findings and Recommendations

Internal Controls

The department has not documented procedures for monitoring and testing of control procedures in accordance with state accounting policy.

State policy in the Montana Operations Manual (MOM), Volume II, Chapter 2-9900, outlines management's responsibility for establishing and maintaining internal controls. To assist agencies, the Department of Administration issued an Internal Control Guidebook contained in the MOM noted above. A section of this policy requires management to establish procedures to monitor and test internal controls to ensure they are working as management intends.

During the course of our audit we found that management has established internal controls but has not documented monitoring processes or tested internal controls. Documented monitoring and testing procedures provide management with assurance that controls are working as designed.

RECOMMENDATION #1

We recommend the department document procedures to monitor and test internal controls in accordance with state policy.

Independent Auditor's Report and Department Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2008, and 2007. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2008, and 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 3, 2008

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2007	\$ <u>268,904</u>	\$ <u>6,301</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	20,149	20,363
Nonbudgeted Revenues & Transfers-In	29,662	40
Prior Year Revenues & Transfers-In Adjustments	367	
Direct Entries to Fund Balance	3,280,396	
Total Additions	<u>3,330,574</u>	<u>20,403</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	3,183,095	26,704
Nonbudgeted Expenditures & Transfers-Out	21,205	
Prior Year Expenditures & Transfers-Out Adjustments	25	
Total Reductions	<u>3,204,325</u>	<u>26,704</u>
FUND BALANCE: June 30, 2008	\$ <u><u>395,153</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND BALANCE: July 1, 2006	\$ <u>(1,797)</u>	\$ <u>603,445</u>	\$ <u>(1,387)</u>
ADDITIONS			
Budgeted Revenues & Transfers-In		23,641	24,712
Nonbudgeted Revenues & Transfers-In		40,333	43
Prior Year Revenues & Transfers-In Adjustments		(15)	42
Direct Entries to Fund Balance	<u>1,797</u>	<u>2,695,139</u>	<u>1,346</u>
Total Additions	<u>1,797</u>	<u>2,759,098</u>	<u>26,143</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out		3,096,234	18,455
Nonbudgeted Expenditures & Transfers-Out		(947)	
Prior Year Expenditures & Transfers-Out Adjustments		(1,648)	
Total Reductions	<u>0</u>	<u>3,093,639</u>	<u>18,455</u>
FUND BALANCE: June 30, 2007	\$ <u><u>0</u></u>	\$ <u><u>268,904</u></u>	\$ <u><u>6,301</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 9,705		\$ 9,705
Taxes	324	\$ 40	364
Charges for Services	18,944		18,944
Other Financing Sources	21,205		21,205
Federal		20,363	20,363
Total Revenues & Transfers-In	<u>50,178</u>	<u>20,403</u>	<u>70,581</u>
Less: Nonbudgeted Revenues & Transfers-In	29,662	40	29,702
Prior Year Revenues & Transfers-In Adjustments	<u>367</u>		<u>367</u>
Actual Budgeted Revenues & Transfers-In	20,149	20,363	40,512
Estimated Revenues & Transfers-In	23,000	92,900	115,900
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (2,851)</u>	<u>\$ (72,537)</u>	<u>\$ (75,388)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ (2,295)		\$ (2,295)
Charges for Services	(556)		(556)
Federal		(72,537)	(72,537)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (2,851)</u>	<u>\$ (72,537)</u>	<u>\$ (75,388)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 13,550		\$ 13,550
Taxes	186	\$ 84	270
Charges for Services	50,223		50,223
Federal		24,713	24,713
Total Revenues & Transfers-In	63,959	24,797	88,756
Less: Nonbudgeted Revenues & Transfers-In	40,333	43	40,376
Prior Year Revenues & Transfers-In Adjustments	(15)	42	27
Actual Budgeted Revenues & Transfers-In	23,641	24,712	48,353
Estimated Revenues & Transfers-In	28,175	22,521	50,696
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,534)	\$ 2,191	\$ (2,343)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 7,550		\$ 7,550
Charges for Services	(12,084)		(12,084)
Federal		\$ 2,266	2,266
Federal Indirect Cost Recoveries		(75)	(75)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,534)	\$ 2,191	\$ (2,343)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Public Service Regulation Program</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	\$ 2,061,049
Employee Benefits	586,988
Total	<u>2,648,037</u>
Operating Expenses	
Other Services	137,645
Supplies & Materials	38,927
Communications	55,955
Travel	66,411
Rent	219,792
Repair & Maintenance	450
Other Expenses	46,692
Total	<u>565,872</u>
Equipment & Intangible Assets	
Capital Leases-Equipment-Nonbu	17,120
Total	<u>17,120</u>
Total Expenditures & Transfers-Out	<u>\$ 3,231,029</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
State Special Revenue Fund	\$ 3,204,325
Federal Special Revenue Fund	26,704
Total Expenditures & Transfers-Out	<u>3,231,029</u>
Less: Nonbudgeted Expenditures & Transfers-Out	21,205
Prior Year Expenditures & Transfers-Out Adjustments	25
Actual Budgeted Expenditures & Transfers-Out	<u>3,209,799</u>
Budget Authority	3,412,882
Unspent Budget Authority	<u>\$ 203,083</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 166,582
Federal Special Revenue Fund	36,501
Unspent Budget Authority	<u>\$ 203,083</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Public Service Regulation Program</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	\$ 1,949,347
Employee Benefits	550,884
Total	<u>2,500,231</u>
Operating Expenses	
Other Services	209,100
Supplies & Materials	31,612
Communications	46,442
Travel	67,300
Rent	209,826
Repair & Maintenance	76
Other Expenses	46,794
Total	<u>611,150</u>
Transfers	
Accounting Entity Transfers	713
Total	<u>713</u>
Total Expenditures & Transfers-Out	<u>\$ 3,112,094</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
State Special Revenue Fund	\$ 3,093,639
Federal Special Revenue Fund	18,455
Total Expenditures & Transfers-Out	<u>3,112,094</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(947)
Prior Year Expenditures & Transfers-Out Adjustments	(1,648)
Actual Budgeted Expenditures & Transfers-Out	<u>3,114,689</u>
Budget Authority	<u>3,189,326</u>
Unspent Budget Authority	<u>\$ 74,637</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 68,330
Federal Special Revenue Fund	6,307
Unspent Budget Authority	<u>\$ 74,637</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2008

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category. In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include a fund to account for general operating revenues and expenditures and a fund to account for Qwest Performance Monitoring.
- ♦ **Federal Special Revenue Funds** – to account for activities funded from federal revenue sources. The Department Federal Special Revenue Funds account for the Federal Natural Gas Safety program.

2. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

The majority of the direct entries to fund balance in the State Special Revenue Fund relates to the collection of utility gross operating tax by the Montana Department of Revenue.

DEPARTMENT OF
PUBLIC SERVICE
REGULATION

DEPARTMENT RESPONSE



MONTANA PUBLIC SERVICE COMMISSION

B-3

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Greg Jergeson, Chairman
Doug Mood, Vice-Chairman
Brad Molnar
Bob Raney
Ken Toole

September 17, 2008

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
State Capitol Building, Room 160
PO Box 201705
Helena, Montana 59620-1705

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

We have reviewed your Financial Compliance Audit completed for the two fiscal years ending June 30, 2008. Our response follows:

Recommendation #1

We recommend the department document procedures to monitor and test internal controls in accordance with state policy.

Concur. Agency staff will document the monitoring and testing of internal controls as required by state policy.

As chairman, I, on behalf of the Commission and staff, would like to take this opportunity to thank you and your staff of professional auditors for your hard work and careful examination during this audit. We always look upon the audit process as an opportunity to improve our operations and performance, and this year was no exception.

Sincerely,

Greg Jergeson, Chairman